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STATE OF MINNESOTA

The Report of the  
GAIN/LOSS ANALYSIS OF FINANCIAL EXPERIENCE  
During calendar 1979 and 1980  
CITY OF RICHFIELD  
POLICE RELIEF ASSOCIATION  
Richfield, Minnesota

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GABRIEL, ROEDER, SMITH & COMPANY  
ACTUARIES & CONSULTANTS

2090 First National Building  
Detroit, Michigan 48226  
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June 18, 1981

City of Richfield  
Police Relief Association  
Richfield, Minnesota

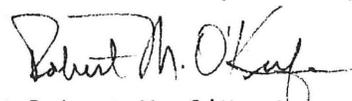
Submitted in this report are the results of the 1979-80 gain/loss analysis of the financial experiences of the Richfield Police Relief Association.

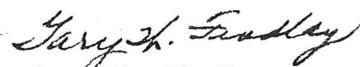
The composite results of this study are reported on Schedules 1(A) and 1(B) and comments regarding the results are on page 12.

The gain/loss analysis was based upon statistical data furnished by the Association regarding active and retired member changes and related financial transactions.

The actuarial assumptions used for regular valuation purposes and which produce "expected" experience data are shown in the appendix of this report.

Respectfully submitted,

  
Robert M. O'Keefe

  
Gary W. Findlay

## PURPOSE OF GAIN/LOSS ANALYSIS

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Actual financial experience will not coincide exactly with assumed financial experience--differences are to be expected since the future cannot be predicted with absolute precision. The changes in computed liabilities resulting from differences between actual and assumed experiences are called actuarial gains if the experience was financially favorable and actuarial losses if the experience was financially unfavorable. Actuarial gains result in decreases in contribution rates and actuarial losses result in increases.

Regular actuarial valuations provide information about aggregate computed liabilities. However, regular valuations do not develop the information needed to explain the year to year changes in computed liabilities attributable to each activity within the retirement system financial mechanism. The purpose of a gain/loss analysis is to determine the change in computed liabilities and contribution rates attributable to variations between actual and assumed experience.

Once a difference between actual and assumed experience in a risk area has been observed to be sizeable and persistent, the assumed experience should be changed to reflect the observed reality. However, gains and losses over a relatively short period of time may not be indicative of long term trends which provide the basis for selection of actuarial assumptions.

## ACTIVITY WHICH RESULTS IN GAINS OR LOSSES

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### Age & Service Retirement.

If members retire at older ages than assumed, there is a gain. If retirements occur at younger ages than assumed there is a loss.

### Disability & Death-in-Service.

If casualty claims are less than assumed, there is a gain. If there are more casualty losses than assumed, there is a loss.

### Withdrawal.

If more liabilities are released by withdrawal than assumed, there is a gain. If there are fewer withdrawals than assumed, there is a loss.

### Salary Increases.

If there are smaller salary increases than assumed, there is a gain. If salary increases are greater than assumed, there is a loss.

### Investment Income.

If there is greater investment income than assumed, there is a gain. If investment income is less than assumed, there is a loss.

### Post Retirement Mortality.

If benefit recipients die at younger ages than assumed, there is a gain. If they live longer than assumed, there is a loss.

### Contribution.

Gains or losses arise due to the delay in implementing changes in the recommended contribution.

### Miscellaneous.

Miscellaneous gains and losses include changes due to data adjustments, rounding and changes in the average age and service characteristics of the group.

RICHFIELD POLICE RELIEF ASSOCIATION

Schedule 1(A)

Gains & Losses in Accrued Liabilities  
and Changes in Contribution Requirements  
During Calendar 1979

<u>Type of Activity</u>	<u>Accrued Liabilities</u> <u>(Gain) or Loss</u>		<u>Contribution Requirements</u> <u>(Gain) or Loss</u>	
	<u>Active</u>	<u>Retirants &amp;</u>	<u>Normal Cost</u>	<u>\$ Payment</u>
	<u>Members</u>	<u>Beneficiaries</u>	<u>% of Payroll</u>	<u>on UAL</u>
	(\$ in 1,000)		(\$ in 1,000)	
<u>Age &amp; Service Retirements</u>	\$ 0	\$ N/A	N/A	\$ 0
<u>Disability &amp; Death-in-Service</u>				
a. <u>Disability</u>	162.3	N/A	N/A	7.9
b. <u>Death-in Service</u>	(20.1)	N/A	N/A	(1.0)
<u>Withdrawal</u>	2.8	N/A	N/A	0.1
<u>Salary Increases</u>	171.7	175.5		16.9
<u>Investment Income</u>	(5.8)	(39.8)		(2.2)
<u>Post Retirement Mortality</u>	N/A	28.4	N/A	1.4
<u>Contributions</u>	(6.7)	(6.9)		(0.6)
<u>Miscellaneous</u>	(3.4)	(1.8)	—	(0.2)
 EXPERIENCE RELATED (GAIN)/LOSS & CORRESPONDING CHANGE IN CONTRIBUTION REQUIREMENTS	 \$300.8	 \$155.4	 N/A	 \$22.3
<u>Changes due to plan amendments</u>	—	—	—	—
 TOTAL (GAIN)/LOSS DURING YEAR	 <u>\$300.8</u>	 <u>\$155.4</u>	 <u>N/A</u>	 <u>\$22.3</u>

RICHFIELD POLICE RELIEF ASSOCIATION

Schedule 1(B)

Gains & Losses in Accrued Liabilities  
and Changes in Contribution Requirements.  
During Calendar 1980

<u>Type of Activity</u>	<u>Accrued Liabilities</u> (Gain) or Loss		<u>Contribution Requirements</u> (Gain) or Loss	
	<u>Active</u>	<u>Retirants &amp;</u>	<u>Normal Cost</u>	<u>\$ Payment</u>
	<u>Members</u>	<u>Beneficiaries</u>	<u>% of Payroll</u>	<u>on UAL</u>
	(\$ in 1,000)		(\$ in 1,000)	
<u>Age &amp; Service Retirements</u>	\$ 0	\$ N/A	0.55%	\$ 0.0
<u>Disability &amp; Death-in-Service</u>				
a. <u>Disability</u>	(12.4)	N/A	(0.13)	(0.6)
b. <u>Death-in Service</u>	(20.9)	N/A	0.11	(1.0)
<u>Withdrawal</u>	22.5	N/A	0.09	1.1
<u>Salary Increases</u>	187.5	119.2		15.0
<u>Investment Income</u>	(25.8)	(178.2)		(10.0)
<u>Post Retirement Mortality</u>	N/A	(66.2)	N/A	(3.2)
<u>Contributions</u>	2.4	2.8		0.2
<u>Miscellaneous</u>	<u>3.9</u>	<u>0.2</u>	---	<u>0.2</u>
EXPERIENCE RELATED (GAIN)/LOSS & CORRESPONDING CHANGE IN CONTRIBUTION REQUIREMENTS	\$157.2	\$(122.2)	0.62%	\$ 1.7
<u>Conversion to UAL Amortization</u>			N/A	38.5
<u>Change in Funding Method For Death &amp; Disability</u>	90.9	N/A	1.06	4.4
<u>Changes due to plan amendments</u>	<u>60.6</u>	---	<u>0.80</u>	<u>3.0</u>
TOTAL (GAIN)/LOSS DURING YEAR	<u>\$308.7</u>	<u>\$(122.2)</u>	<u>2.48%</u>	<u>\$47.6</u>

RICHFIELD POLICE RELIEF ASSOCIATION

Schedule 2(A)

Employees Active at Both Beginning & End of 1979

<u>Age Group Beg. Year</u>	<u>No.</u>	<u>Beginning Salary</u>	<u>Ending Salary</u>	<u>% Increase In Salary</u>
20-24	2	\$ 38,784	\$ 41,928	8.1%
25-29	7	135,744	146,748	8.1
30-34	11	213,312	230,604	8.1
35-39	8	155,136	167,712	8.1
40-44	2	38,784	41,928	8.1
45-49	4	77,568	83,856	8.1
50-54	3	58,176	62,892	8.1
55-59	2	38,784	41,928	8.1
TOTALS	39	\$756,288	\$817,596	8.1%

Employees Active at Either Beginning or End of 1979

<u>Years Service</u>	<u>Beginning of Year</u>	<u>End of Year</u>
0	2	1
1	2	4
2	0	2
3	9	0
4	1	8
5 or more	28	27

Average Age: 36.5 years.

Average Service: 8.9 years.

RICHFIELD POLICE RELIEF ASSOCIATION

Schedule 2(B)

Employees Active at Both Beginning & End of 1980

<u>Age Group Beg. Year</u>	<u>No.</u>	<u>Beginning Salary</u>	<u>Ending Salary</u>	<u>% Increase In Salary</u>
20-24	4	\$ 83,856	\$ 92,880	10.8%
25-29	8	167,712	185,760	10.8
30-34	9	188,676	208,980	10.8
35-39	9	188,676	208,980	10.8
40-44	2	41,928	46,440	10.8
45-49	4	83,856	92,880	10.8
50-54	4	83,856	92,880	10.8
55-59	2	41,928	46,440	10.8
TOTALS	42	\$880,488	\$975,240	10.8%

Employees Active at Either Beginning or End of 1980

<u>Years Service</u>	<u>Beginning of Year</u>	<u>End of Year</u>
0	1	0
1	4	1
2	2	4
3	0	2
4	8	0
5 or more	27	35

Average Age: 37.5 years.

Average Service: 9.9 years.

RICHFIELD POLICE RELIEF ASSOCIATION

Schedule 3(A)

Separations From Active Service (Other Than Age & Service Retirement)  
During 1979

<u>Age at Termination</u>	<u>Withdrawal</u>		<u>Disability</u>		<u>Death</u>	
	<u>Actual</u>	<u>Expected</u>	<u>Actual</u>	<u>Expected</u>	<u>Actual</u>	<u>Expected</u>
20-24		0.1		*		*
25-29	1	0.2		*		*
30-34		0.2		*		*
35-39		0.1		*		*
40-44		*		*		*
45-49		*	2	*		*
TOTALS	1	0.6	2	0.1	0	0.2

\* Less than 0.1%

<u>Years Service at Termination</u>	<u>Actual</u>	<u>Expected</u>
0		0.1
1		
2		0.1
3	1	0.1
4		
5 or more		0.3
TOTALS	1	0.6

Average age at separation: 30.0 years.

Average service at separation

RICHFIELD POLICE RELIEF ASSOCIATION

Schedule 3(B)

Separations From Active Service (Other Than Age & Service Retirement)  
During 1980

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<u>Age at Termination</u>	<u>Withdrawal</u>		<u>Disability</u>		<u>Death</u>	
	<u>Actual</u>	<u>Expected</u>	<u>Actual</u>	<u>Expected</u>	<u>Actual</u>	<u>Expected</u>
20-24		0.1		*		*
25-29		0.2		*		*
30-34		0.2		*		*
35-39		0.1		*		*
40-44		*		*		*
45-49		*		*		*
TOTALS	0	0.6	0	0.1	0	0.2

\* Less than 0.1%

<u>Years Service at Termination</u>	<u>Actual</u>	<u>Expected</u>
0		0.1
1		0.1
2		
3		0.1
4		0.1
5 or more		0.2
TOTALS	0	0.6

Average age at separation: N/A.

Average service at separation: N/A.

RICHFIELD POLICE RELIEF ASSOCIATION

Schedule 4

Separations From Active Service  
For Age & Service Retirement

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<u>Age at Termination</u>	<u>1979</u>		<u>1980</u>	
	<u>Actual</u>	<u>Expected</u>	<u>Actual</u>	<u>Expected</u>
50				
51				
52				
53				
54				
55				
56				
57				
58				
59				
60				
61				
62				
63				
64				
65 & Over	<u>    </u>	<u>    </u>	<u>    </u>	<u>    </u>
TOTALS	0	0.0	0	0.0

Average age at retirement during period examined: N/A.

Average service at retirement during period examined: N/A.

RICHFIELD POLICE RELIEF ASSOCIATION

Schedule 5

Death After Retirement  
(Disability and Service Retirants)

<u>Age at Death</u>	<u>1979</u>		<u>1980</u>	
	<u>Actual</u>	<u>Expected</u>	<u>Actual</u>	<u>Expected</u>
40-44		0.0048		
45-49		0.0199		0.0183
50-54		0.0132		0.0091
55-59		0.0320		0.0489
60-64		0.1578		0.1057
65-69	<u>—</u>	<u>0.0408</u>	<u>—</u>	<u>0.1091</u>
TOTALS	0	0.2685	0	0.2911

APPENDICES

RICHFIELD POLICE RELIEF ASSOCIATION

Valuation Methods and Assumptions

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The Entry Age Normal Cost method was used to determine the normal cost of all benefits. Disability and death before retirement benefits were valued in previous valuations on a terminal funding basis (one year term cost).

The rate of investment return (interest) used in making the valuation was 5.0 percent per annum, compounded annually.

The mortality table used was the United States Life Table, 1959-61, White Males and White Females.

Sample Ages	Single Life Values: Present Value of \$1 Monthly				Future Life Expectancy (Years)	
	Level For Life		Increasing 3.5% Yearly		Men	Women
	Men	Women	Men	Women		
45	\$169.61	\$186.84	\$263.23	\$304.86	27.33	32.52
50	154.85	174.20	229.51	270.80	23.22	28.08
55	139.29	159.62	197.24	236.11	19.45	23.81
60	122.79	142.73	166.26	200.76	16.01	19.69
65	106.31	124.22	137.82	166.16	12.97	15.88
70	89.86	104.31	111.71	132.82	10.29	12.38
75	73.39	83.92	87.66	101.94	7.92	9.28
80	57.54	64.24	66.29	74.77	5.89	6.67

Age & service retirement was assumed to occur at age 58, or attained age if older.

Sample Rates of Separation From Active Employment Before Retirement, Death or Disability

Sample Ages	% of Active Members Separating Within Next Year
20	3.00%
25	2.50
30	2.00
35	1.50
40	1.00
45	0.50
50+	0.00

Sample Pay Adjustment Factors used to Project Current Pays

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<u>Sample Ages</u>	<u>Present Pay Resulting in Pay of \$1,000 at Age 60</u>	<u>Percent Increase in Pay During Next Year</u>
20	\$ 253	3.5%
25	300	3.5
30	356	3.5
35	423	3.5
40	503	3.5
45	597	3.5
50	709	3.5
55	842	3.5
60	1,000	3.5

Disability retirements were assumed to occur as indicated below:

<u>Sample Ages</u>	<u>% of Active Members Becoming Disabled Within Next Year</u>
20	0.08%
25	0.08
30	0.08
35	0.08
40	0.20
45	0.26
50	0.49
55	0.89

Richfield Police Relief Association

Brief Summary (12/31/80) of Benefit Provisions Evaluated and/or Considered

Age & Service Retirement

Eligibility. 20 years of service and 55 years of age.

Amount. For first 20 years of service, 36/75 of base pay. For each year in excess of 20 an additional 1/75 is added up to a maximum of 43/75 of base pay for 27 or more years of service.

Pay Used For Plan Purposes. For benefit determination purposes "base pay" means the salary of a first grade patrolman for the second month of the previous fiscal year. For contribution purposes it means the present base pay of a first grade patrolman.

Disability Retirement

Eligibility. Disabled to the extent that no longer able to perform the duties of a police officer before being eligible for age & service retirement.

Amount. 36/75 of base pay.

Member's Death While Active, Or In Deferred Status, Or Retired

Eligibility.

Spouse. Legally married to member at least one year before separation from service and residing with member at time of death. Benefits terminate upon remarriage.

Child. Younger than age 18.

Amount.

Spouse. 18/75 of base pay.

Child. 6/75 of base pay per child. Children's maximum is 18/75 of base pay if spouse is receiving or 36/75 of base pay if no spouse is receiving.

Vested Deferred. Separated before age 55. Maximum benefit is 40/75 of base pay. Payment beginning is deferred to attainment of age 55. For members with less than 20 years of service, benefit amount is 36/75 of base pay times years of service divided by 20.

Post Retirement Adjustments ("Escalator"). Each time base pay is changed, payments to all benefit recipients are simultaneously changed by the same percent that base pay is changed.

Member Contributions. 8% of base pay. 75% of total member contributions is refundable, without interest, if no monthly benefit is payable upon separation from service.